

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 NSC-05 AID-05 CEA-01 CIAE-00
COME-00 EB-08 EA-10 FRB-03 INR-07 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04
SIL-01 AGRE-00 OMB-01 SS-15 OES-07 STR-07 DODE-00
H-01 INT-05 L-03 PM-05 ACDA-12 /149 W
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R 311914Z JAN 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 4585
INFO ALL EC CAPITALS
DOE WASHDC

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USEEC

PARIS ALSO FOR OECD

CORRECTED COPY FOR PARA TEN PARA TWO ADDED

E.O. 11652: GDS
TAGS: ENRG, EEC
SUBJECT: COMMISSION THINKING ABOUT ENERGY PROBLEMS

REF: (A) 77 BRUSSELS 15084, (B) BRUSSELS 860

1. SUMMARY: EC COMMISSIONER BRUNNER HAS INFORMED ME OF
TWO NEW COMMISSION PROPOSALS IN THE ENERGY AREA. THE
FIRST PROPOSES A DIRECT SUBSIDY ON EC PRODUCED COAL IN
ORDER TO ENCOURAGE CONVERSION OF THERMAL POWER GENERATING
PLANTS FROM OIL TO COAL. THE COMMISSION HAS ALSO
FORMULATED A NEW PROGRAM TO HELP RESOLVE THE DIFFICULTIES
FACING THE EC'S PETROLEUM REFINING INDUSTRY BY: ALLO-
CATING REFINERY THROUGHPUT ON AN EQUITABLE BASIS WITH THE
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VOLUNTARY PARTICIPATION OF THE OIL INDUSTRY: DISCOURAGING
ESTABLISHMENT OF NEW REFINERIES; AND ASSISTING THE
COMPANIES TO CLOSE EXCESS REFINERY CAPACITY. THERE IS
NO ASSURANCE THAT THESE NEW MEASURES WILL BE ANY MORE
ACCEPTABLE TO THE MEMBER STATES THAN PREVIOUS PROPOSALS
IN THE SAME GENERAL AREA. WASHINGTON'S REACTIONS TO
THESE PROPOSALS WOULD BE APPRECIATED. END SLMMARY.

2. COMMISSIONER BRUNNER TELLS ME HE IS CONSIDERING NEW COMMISSION INITIATIVES IN THE ENERGY AREA WHICH HE HOPES COULD LEAD TO DECISIONS AT THE BONN EUROPEAN COUNCIL (HEADS OF GOVERNMENT) SCHEDULED FOR JULY 5 AND 6. IF SO, BRUNNER BELIEVES THEY COULD SOMEHOW BE RELATED TO AN ENERGY SUBJECT TO BE CONSIDERED AT THE BONN ECONOMIC SUMMIT MEETING SHORTLY THEREAFTER. I TOLD HIM I THOUGHT WASHINGTON WOULD WELCOME A SOLIDLY PREPARED ENERGY ITEM ON THE SUMMIT AGENDA, SUGGESTED IT MIGHT BE GEARED TO INVESTMENT STIMULUS, BUT REFRAINED FROM COMMENTING AT THIS STAGE ON HIS IDEAS NEITHER OF WHICH APPEAL MUCH TO ME. MOREOVER, IF THE PAST IS PRELUDE, THERE IS UNLIKELY TO BE A SUFFICIENT CONSENSUS IN THE COMMUNITY FOR THEIR ADOPTION OR IMPLEMENTATION.

3. BRUNNER TALKS OF RESHAPING THE COAL SUBSIDY SCHEME. THE COMMISSION HAS PREPARED A PROPOSAL PROVIDING FOR A \$10/TON SUBSIDY FOR ALL COAL PRODUCED IN THE COMMUNITY AND EXPORTED TO ANOTHER EC STATE FOR USE IN ELECTRIC POWER STATIONS. THE COST FOR THE THREE-YEAR PROGRAM IS ESTIMATED AT ABOUT \$100 MILLION PER YEAR. BRUNNER SAID IT WOULD RESULT IN A CONSIDERABLE SAVING OF OIL AND THAT DISPLACEMENT OF COAL IMPORTS WOULD BE AVOIDED. HE DID NOT SAY HOW, BUT PRESUMABLY HE HOPES THE LONG-PENDING MEASURE TO PROVIDE FINANCIAL AIDS FOR CONVERSION OF

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THERMAL ELECTRIC POWER STATIONS FROM OIL TO COAL FROM ALL SOURCES WILL ALSO BE APPROVED THEREBY MAINTAINING THE LEVEL OF EC COAL IMPORTS WHILE AT THE SAME TIME ENCOURAGING GREATER OUTPUT OF COMMUNITY COAL.

4. CONCERNING OIL, BRUNNER WHO IN PAST CONVERSATIONS HAS ARGUED THAT THE MARKET SHOULD BE LEFT ALONE TO DO ITS JOB, IS NOW MAKING DIRIGISTE NOISES. HE ASSERTS THE MARKET MECHANISM HAS BROKEN DOWN IN THE PRESENT CIRCUMSTANCES OF LARGE EXCESS REFINERY CAPACITY. HE PROPOSES THAT THE COMMISSION USE ITS EXISTING AUTHORITY TO DISCOURAGE CONSTRUCTION OF NEW REFINERIES IN THE MEMBER STATES AND WORK CLOSELY WITH THE PETROLEUM COMPANIES TO ENCOURAGE THEM TO CLOSE DOWN REMAINING EXCESS CAPACITY. TO THIS END, HE PROPOSES EXTENDING SOME FINANCIAL ASSISTANCE FOR ADJUSTMENT AND PERMITTING COMPANIES TO CONSULT ON RATIONALIZING THE INDUSTRY THROUGH PLANT CLOSURES AND EXCHANGE AGREEMENTS. THE HEART OF THE PROPOSAL IS THE ANNUAL DETERMINATION BY THE COMMISSION, WITH THE VOLUNTARY COOPERATION OF THE INDUSTRY, OF THE OPTIMUM REFINERY THROUGHPUT FOR EACH COMPANY. ALTHOUGH BRUNNER WOULD LIKE TO ESTABLISH AN OIL INDUSTRY COM-

MITTEE FOR THIS PURPOSE SIMILAR TO WHAT EXISTS FOR COAL
UNDER THE ECSC TREATY, SOME OF THE COMMISSION STAFF
BELIEVE THIS IS NOT FEASIBLE AND WOULD PROBABLY CAUSE
PROBLEMS UNDER COMMUNITY COMPETITION LEGISLATION.

5. I BELIEVE THAT IMPLEMENTATION OF EITHER OF THESE
PROPOSED PROGRAMS IS VERY PROBLEMATICAL. MEMBER STATES

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INFO ALL EC CAPITALS
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HAVE NOT BEEN ABLE TO AGREE ON FINANCIAL AIDS TO
ENCOURAGE CONVERSION OF THERMAL POWER STATIONS FROM OIL
TO COAL BECAUSE OF CONFLICT OVER THE EXTENT THAT SUCH
MEASURES SHOULD SUPPORT EC COAL PRODUCERS RATHER THAN
SIMPLY REDUCE DEPENDENCY ON OIL; THE NEW PROPOSAL IS
NOT LIKELY TO BE ANY MORE ACCEPTABLE TO THE NON-COAL
PRODUCING STATES. I IMAGINE THE UK AND PROBABLY IRELAND,
WHO HAVE VIGOROUSLY OPPOSED PAST EFFORTS TO RESTRICT
THEIR FREEDOM TO BUILD NEW OIL REFINERIES (REF A), WILL
TRY TO PREVENT IMPLEMENTATION OF THE OIL REFINING PRO-
POSAL. BRUNNER IS CLEARLY RESPONDING TO PRESSURES FROM
THE FIVE SMALLER SO-CALLED EUROPEAN OIL COMPANIES (REF
B). IT IS DOUBTFUL, HOWEVER, THAT THE DEGREE OF OIL
MARKET REGIMENTATION HE IS PROPOSING WOULD BE ACCEPTABLE
TO MOST OTHER COMPANIES, INCLUDING AMERICAN COMPANIES,

TWO OF WHOM HAVE ALREADY INFORMED US THEY OPPOSE THE PLAN AND WILL NOT COOPERATE VOLUNTARILY.

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6. ALTHOUGH APPROVAL APPEARS UNLIKELY, THE DEPARTMENT'S REACTIONS TO BRUNNER'S TWO PROPOSALS AND HIS SUGGESTION THAT THEY MIGHT BE SUITABLE FOR CONSIDERATION AT THE BONN ECONOMIC SUMMIT WOULD BE APPRECIATED. FOR EXAMPLE, IT WOULD BE USEFUL TO KNOW WHETHER WE ARE MORE INTERESTED IN ENCOURAGING THE EC TO INCREASE ITS COAL PRODUCTION TO REDUCE ITS DEMAND FOR IMPORTED OIL THAN WE ARE IN MAINTAINING AND POSSIBLY INCREASING OUR STEAM COAL EXPORTS TO THE COMMUNITY.

7. I WOULD ONLY ADD THAT AMBASSADOR RIBERHOLDT HAS AGAIN TOLD ME THAT THE DANES INTEND TO PUSH HARD ON ENERGY DURING THEIR PRESIDENCY, DESPITE A GENERAL PESSIMISM AMONG MANY PERMDEL OFFICIALS AS TO THE POSSIBILITY OF AGREEMENT AT THIS TIME ON SIGNIFICANT COMMON ENERGY MEASURES. I THINK, BUT AM NOT CERTAIN, THAT RIBERHOLDT'S IDEAS RUN IN DIFFERENT DIRECTIONS FROM BRUNNER'S. IN ANY CASE, POSSIBLE GUIDANCE FROM THE DEPARTMENT REGARDING THESE COMMISSION PROPOSALS WOULD ALSO BE USEFUL IN FURTHER CONVERSATIONS WITH HIM. ALSO HELPFUL WOULD BE US IDEAS AS TO OTHER DIRECTIONS IN WHICH WE MIGHT ENCOURAGE THE COMMUNITY TO MOVE.

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